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Message Text

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ACTION COME-00

INFO OCT-01 EA-10 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01
CIAE-00 DODE-00 EB-08 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15
STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01
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P 110905Z NOV 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 7791
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 17938

E.O. 11652: GDS
TAGS: ETRD, GATT, MTN, RP, XD, US
SUBJECT: REVIEW OF LOCAL CONTENT REUIQREMENTS

REF: STATE 258716

1. SUMMARY. THE PHILIPPINE GOVERNMENT DOES HAVE WELL-ESTABLISHED LOCAL CONTENT REQUIREMENTS IN THE AUTOMOTIVE FIELD. NEGOTIATIONS IN THE MTN CONTEXT FOR REMOVAL OF THESE REQUIREMENTS WOULD PROBABLY BE UNSUCCESSFUL AND, IN ADDITION, IT IS UNLIKELY THAT U.S. EXPORTS OF AUTOMOBILES TO THE PHILIPPINES WOULD BE THEREBY INCREASED. END SUMMARY.

2. BACKGROUND. IN THE PHILIPPINES, THE LOCAL CONTENT REQUIREMENTS (LCRS) ARE CONTAINED WITHIN THE FRAMEWORK OF THE PHILIPPINE PROGRESSIVE CAR MANUFACTURING PROGRAM (PCMP). THE PCMP EMBRACES THE MANUFACTURE (COMPONENTS ONLY) AND ASSEMBLY OF PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES (WHICH ARE ESSENTIALLY VARIANTS OF CARS) WITH NOT MORE THAN FOUR CYLINDERS AND NOT EXCEEDING 2,000 CC DISPLACEMENT. THE PCMP AIMS 1) TO REDUCE EXPENDITURES ABROAD THROUGH DOMESTIC MANUFACTURE OF AUTOMOTIVE COMPONENTS, 2) TO STIMULATE SMALL AND MEDIUM SIZED
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ENTERPRISES FOR THE MANUFACTURE OF AUTOMOTIVE COMPONENTS, AND 3) IN THE PROCESS, TO UPGRADE LOCAL SKILLS AND TECHNICAL KNOW-HOW. THE PROGRAM BEGAN IN JANUARY 1973, AND INCLUDES FIVE PARTICIPANTS: CHRYSLER PHILIPPINES, DELTA MOTORS, DMG. FORD PHILIPPINES AND GENERAL MOTORS PHILIPPINES. THE FIVE PARTICIPANTS HAVE MAD TO MEET LCRS DURING THE FIRST FOUR YEARS OF THE PROGRAM AS FOLLOWS:

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3. ALTHOUGH THREE OF THE FIVE MANUFACTURERS IN THE PCMP ARE U.S. FIRMS, NONE OF THE CARS ASSEMBLED HERE ARE MANUFACTURED IN THE U.S. CHRYSLER PHILIPPINES (ONLY FIVE PERCENT OF WHICH BELONGS TO CHRYSLER U.S.) ASSEMBLES AND DISTRIBUTES MITSUBISHI CARS. GENERAL MOTORS IMPORTS ITS AUSTRALIAN MODELS, BUT PRINCIPALLY THE ISUZU GEMINI AND FORD BRINGS IN THE BRITISH FORD.
REPRESENTATIVES OF THESE COMPANIES CITE THE PROHIBITIVELY LARGER DISPLACEMENTS OF THE U.S. CARS AND COST OF FREIGHT AS PRINCIPAL CONSIDERATIONS FOR CHOOSING NON-AMERICAN MAKES. LOCAL U.S. AUTOMOTIVE REPRESENTATIVES HERE CONFIRMED THE EMBASSY'S JUDGMENT THAT THE REQUIREMENT FOR SMALLER CARS WAS INSPIRED BY EFFORTS TO CONSERVE ENERGY RATHER THAN ANY ATTEMPT TO DISCRIMINATE AGAINST U.S. AUTOMOBILES. U.S. AUTMOTIVE COMPANIES HERE HAVE MADE SOME EFFORTS TO IMPORT LARGER AMERICAN CARS FOR THE LOCAL LUXURY MARKET. THEY HAVE SO FAR BEEN UNSUCCESSFUL OWING, IN PART, TO ENERGY CONSIDERATIONS.

4. AS OF THE SECOND SEMESTER OF 1976THE PCMP PARTICIPANTS WERE NOT ABLE TO REACH THE 62.5 PERCENT LOCAL CONTENT MINIMUM AND BOI EXTENDED THE DEADLINE TO 1978. THE TIMETABLE FOR LOCAL CONTENT IS STILL UNDER DISCUSSION WITHIN THE

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STR-05 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01
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TO SECSTATE WASHDC PRIORITY 7792
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C O N F I D E N T I A L SECTION 2 OF 2 MANILA 17938

BOI, AND IS CONTROVERSIAL WITHIN THE INDUSTRY. COMMENT: THE DELAY IN IMPLEMENTING THE HIGHER LOCAL CONTENT REQUIREMENT HAS MEANT THAT DANA, HAVING INVESTED SEVERAL MILLIONS IN AN AXLE PLANT, IS UNABLE TO PRODUCE AND SELL

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IN THE FACE OF CHEAPER IMPORTS FROM JAPAN, KOREA, AND THE UNITED KINGDOM. END COMMENT.

5. THE PROGRESSIVE TRUCK MANUFACTURING PROGRAM (PTMP) CAME "INTO EFFECT" ON JULY 1, 1977. HOWEVER, EFFORTS CONTINUE TO DETERMINE WHICH COMPANIES WILL PARTICIPATE AND THE GROUND RULES FOR THE PROGRAM. AS A RESULT, THE PTMP HAS STILL NOT BEEN IMPLEMENTED. END BACKGROUND.

6. THE FOLLOWING DISCUSSION IS DIRECTED TO THE SPECIFIC QUESTIONS IN PARA 2 OF REFTEL:

(1) THE PRODUCTS ON WHICH LOCAL CONTENT IS REQUIRED - ESSENTIALLY LCRS COVER ALL PASSENGER CARS AND LIGHT UTILITY VEHICLES. THE U.S. AUTOMOBILE COMPANIES LOCATED HERE HAVE ATTEMPTED TO IMPORT SOME OF THE HEAVIER U.S. MODELS, BUT SO FAR THEY HAVE BEEN UNSUCCESSFUL, DUE IN PART TO ENERGY CONSIDERATIONS.
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(2) THE LEVEL OF THE LCRS - THIS QUESTION WAS DISCUSSED IN PARAS 1 AND 2 ABOVE.

(3) AN ASSESSMENT OF THE SIGNIFICANCE TO U.S. EXPORTS OF THE LCR FOR MOTOR VEHICLES AND THE POSSIBILITY OF INCREASING U.S. EXPORTS IF MODIFICATIONS IN REQUIREMENTS COULD BE NEGOTIATED - AS POINTED OUT ABOVE, THE CARS ASSEMBLED HERE ARE NON-AMERICAN BECAUSE THEY MEET CONSUMER PREFERENCES AND GOP INSISTENCE ON ENERGY CONSERVATION. FREIGHT RATES ARE ALSO A FACTOR, AS ARE THE AGGRESSIVE AND COORDINATED COMMERCIAL POLICIES OF THE JAPANESE TRADING COMPANIES. IN ADDITION, THE PHILIPPINE PCMP IS WELL-ADVANCED AND THE GOP HAS A STRONG COMMITMENT TO THE PROGRAM AS A MAJOR CONTRIBUTION TO THE COUNTRY'S ECONOMIC DEVELOPMENT AND AS AN EXERCISE OF THE GOVERNMENT'S SOVEREIGN RIGHT TO PROMOTE THAT DEVELOPMENT BY ENCOURAGING LOCAL INDUSTRY.

(4) IMPORTANCE TO PHILIPPINE DEVELOPMENT OF LCRS - THE ACTUAL IMPORTANCE OF THE LCRS CAN BE DEBATED, BUT THERE IS NO DOUBT THAT THE GOP BELIEVES THAT THE CONTRIBUTION OF THE PCMP TO THE COUNTRY'S DEVELOPMENT IS IMPORTANT.

(5) EMBASSY'S EVALUATION OF THE POSSIBILITY OF NEGOTIATING A REDUCTION IN LCRS: EMBASSY BELIEVES, IN SUM, THAT: A) THE GOP HAS A STRONG COMMITMENT TO THE PCMP AS AN IMPORTANT SOURCE OF INDUSTRIAL DEVELOPMENT; B) THE CHIEF BAR TO THE IMPROTATION OF U.S. CARS FOR ASSEMBLY HERE IS THE 2000 CC DISPLACEMENT CEILING. THIS CEILING DEPENDS MORE ON ENERGY CONSIDERATIONS THAN LOCAL CONTENT AND IS PROBABLY NOT NEGOTIABLE.

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7. AS A RESULT, EMBASSY BELIEVES BOTH LIKELIHOOD AND BENEFITS
OF NEGOTIATING A REDUCTION IN LCRS ARE SLIM. FINALLY, U.S.
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MANUFACTURERS WOULD NOT BENEFIT FROM SUCH A REDUCTION, AND
INDEED, ONE U.S. INVESTOR WOULD SIMPLY HAVE TO PICK UP AND
GIVE ITS INVESTMENT, WHICH WAS INDUCED SPECIFICALLY BY
A HIGHER LCR.
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